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TAGS: [EAID](#) [KPAL](#) [PREL](#) [PGOV](#) [WBG](#) [EU](#) [IS](#)
SUBJECT: FAYYAD PRESENTS INSTITUTION-BUILDING PLAN AT AHLC
MEETING IN NEW YORK, SEPTEMBER 22

REF: STATE 99834

Classified By: NEA Acting Assistant Secretary Ronald Schlicher,
reasons 1.4(b), (d).

¶1. (U) Summary: Representatives of the United States and more than 20 donor countries joined Israel and the Palestinian Authority (PA) for a September 22 meeting of the Ad-Hoc Liaison Committee (AHLC) at United Nations headquarters in New York. Norwegian Foreign Minister Jonas Stoere, who chaired the meeting, drew a direct link between the AHLC's economic and institution-building agenda in support of a two-state solution and President Obama's meetings with the Israeli and Palestinian leadership to relaunch peace negotiations (reftel). PA Prime Minister Salam Fayyad presented and called for international support of the PA's two-year institution building plan, titled "Palestine: Ending the Occupation, Establishing the State." Fayyad also called on donors to provide additional budgetary assistance this year to meet an anticipated \$400 million year-end budget deficit. Donors did not make new commitments of budgetary support, but did give Fayyad's plan broad endorsement and committed to supporting the PA's institution-building agenda. Donors provided an overall negative assessment of the conditions in Gaza, criticized Israeli policies for the lack of project implementation in Gaza, and called on Israel to open crossings between Israel and Gaza to allow greater assistance for recovery and reconstruction. Stoere called for the next meeting of the AHLC to be held at the ministerial level in the context of the resumption of peace negotiations. End summary.

Political Context

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¶2. (SBU) President Obama's meetings at the nearby Waldorf Astoria Hotel with Israeli Prime Minister Netanyahu and Palestinian Authority President Abbas provided the backdrop for the AHLC, which opened as the President began his meetings. In their remarks, most delegations, including the United States, made an explicit link between the political and economic tracks of peace efforts, arguing that donor support for the PA and Palestinian institutional and economic

development was critical to ensure the success of negotiations. Within this context, discussions at the AHLC primarily focused on Fayyad's two-year institution-building plan, entitled "Palestine: Ending the Occupation, Preparing the State."

Fayyad's Plan

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¶3. (U) Prime Minister Fayyad used his comments to present his two-year plan, which he described as a political document that expresses his government's commitment to build the institutions of statehood within two years, "in spite of the Israeli occupation." He said the plan was "unabashedly unilateral," but asserted that it was a form of "positive unilateralism" that is designed to deliver on Palestinian responsibilities under the Roadmap. The government's goal is straightforward, he said -- to develop the institutions of a viable Palestinian state that can support a negotiated agreement. If, however, the occupation remains in place at the end of the two-year timeframe, he said, the strength of the institutions that the PA will have developed should make the argument for continued occupation unsustainable.

¶4. (SBU) Fayyad assured donors that the plan does not represent a radical departure from the priorities of the 2007 Palestinian Reform and Development plan, which donors have supported with billions of dollars since its announcement. In their statements, donors provided broad endorsement. The European Commission (EC) representative expressed "unequivocal support" for the plan and the PA's political aspirations, and promised to align the EC's financial assistance to the PA's priorities. The U.S. rep called on donors to respond with assistance to support the PA's institution-building goals. The Israeli delegation was positive about the institution-building components of the plan in a bilateral meeting with the U.S. delegation on September 21, but refrained from addressing the plan directly at the AHLC, simply reminding donors that a negotiated settlement was the only acceptable way to end the conflict.

Budget Support

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¶5. (C) Fayyad used the AHLC to emphasize the importance of continued donor support to meet the PA's projected \$400 million budget shortfall in 2009. While thanking donors for the more than \$950 million in direct budget assistance received to date in 2009, Fayyad warned donors that the PA will require additional assistance as early as October to meet recurrent expenses. Fayyad continued that the PA's current level of debt with private Palestinian banks precludes it from accessing bank financing to smooth over gaps in donor assistance, therefore making the need for timely donor support all the more acute. (Note: In a bilateral meeting with the U.S. delegation on September 21, Fayyad asked if the United States would be in a position to make a second transfer this calendar year with fiscal year 2010 funds, arguing that he sees no other sources of support in the absence of Arab contributions. End note.)

¶6. (SBU) No donors committed to new budgetary support. Of the donors who mentioned budget assistance, Japan said that it was "considering ways" to provide additional assistance in 2009 but gave no specifics. The UK stated that it was in the process of restructuring its assistance to make sure that it could deliver budget support more reliably in 2010, but was not prepared to make any announcements at the AHLC. Among Arab delegations, the UAE made no mention in brief remarks to increasing budget assistance in 2009, and Kuwait and Saudi Arabia were noticeably absent. New World Bank Vice President for the Middle East Shamshad Akhtar made the point that predictable flows of donor assistance will be required beyond 2009, predicting that even if the Palestinian territories witnessed modest economic growth over the next few years, the PA still would require budget support from donors totaling 11% of GDP in 2012.

Signs of Fragile Recovery

17. (U) The AHLC welcomed signs of economic progress in the West Bank, particularly the IMF's projection that the West Bank could experience GDP growth of 7% in 2009. Quartet Representative Tony Blair said that Palestinian security gains and Israel's recent removal of some roadblocks are resulting in visible improvements in business confidence and quality of life. The head of the Israeli delegation, Irit Ben Abba, Deputy Director General for Economic Affairs at the Ministry of Foreign Affairs, highlighted Israel's actions in support of the Palestinian economy, including: the reduction since 2007 in the number of manned checkpoints in the West Bank from 41 to 14 and Israel's recent announcement that it would remove an additional 100 earth mounds; the timely transfer of clearance revenues to the PA totaling 8.2 billion NIS between June 2007 and August 2009; the extension of hours at Allenby bridge for both passengers and cargo; and increased access for Israeli Arabs into the West Bank, approximately 80,000 of whom entered the West Bank to shop and do business in 2009. She stated, however, that the security wall and checkpoints within the West Bank remain Israel's most effective defense against terror attacks, and that as long as the threats remain, so will restrictions on access and movement. (Note: Ben Abba cited statistics that Israeli Defense Forces prevented 92 suicide attacks against Israel and arrested 68 terrorists in the West Bank in 2008 as evidence of the continuing threat against Israel emanating from the West Bank. End note.)

18. (U) While acknowledging positive Israeli actions, Fayyad reminded donors that the genesis of the West Bank's economic recovery goes back to 2008 and the PA's policy of injecting approximately \$3 billion in donor assistance into the local economy during 2008 and 2009. "You will have growth with this amount of liquidity," he said, but cautioned donors and Israel that the PA cannot sustain growth on the strength of government spending alone.

Private Sector

19. (SBU) The U.S. intervention stressed the need for all stakeholders to support private sector development as the engine of Palestinian economic growth, calling on donors to support ongoing projects with technical assistance, financing, and investment. The statement highlighted nine affordable housing development projects that need \$116 million in donor funding for infrastructure development, and called on Israel and the PA to take additional, concrete steps to improve the climate for investment. To that end, the World Bank emphasized the need for the PA to focus institution-building efforts on land management and judicial sector reform, particularly resolving ongoing conflicts among authorities in the justice sector that have limited the impact of reforms to date. Most donors also called on Israel to release the frequencies required for the commercial launch of Wataniya, which would become the Palestinians' second telephony provider, as a necessary signal to foreign investors that Israel supports Palestinian private sector development.

Gaza

110. (SBU) Fayyad laid out two immediate steps to address the situation in Gaza: he called on Israel to improve access; and on donors to disburse their pledges announced at the Sharm al-Sheikh donors' conference in support of the PA's recovery plan. He stated that the PA is about to receive money from the EU to finance a program that will compensate Gaza-based companies for losses incurred during Operation Cast Lead, which will help restore private sector activity and bolster local markets. He said that the PA would manage the program through the private banks that would disburse grants directly to eligible businesses. He hoped that this program would provide a model for how donors can put their Gaza assistance

into action. (Note: Despite Fayyad's enthusiasm, the EU separately told us that it still is in the process of considering the PA's proposal and had not yet made a decision whether or how to fund the initiative. End note.)

¶11. (SBU) Overall, donors provided negative assessments of the situation in Gaza. UN Special Envoy Robert Serry bluntly said that the situation in Gaza has not improved since the last meeting of the AHLC in Oslo in June. Describing the situation in Gaza as a "de-development crisis" as opposed to a humanitarian one, he complained that Israel continues to block approval for project implementation, including a handful of housing and other projects proposed by the UN. Blair added that the conditions in Gaza are a tinderbox, and that if Gaza erupts it could undermine the political track and undo the fragile economic gains that the Palestinians have realized so far. "I continue to believe that the blockade is wrong," he said, turning to the Israeli delegation, and that Israeli efforts to squeeze Hamas should not penalize the business community on which Gaza's recovery depends. FM Stoere added to Blair's assessment saying, "if we leave Gaza to its own devices, the tunnel economy and Islamic radicalism will become Gaza's only growth sectors." Israel argued that Hamas was primarily responsible for the conditions in Gaza, and called for the release of Gilad Shalit, the Israeli soldier that has been in Hamas captivity for the past three years.

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